RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

Since 1958 •

Post Office Box 1759, La Jolla, California 92038 | 26 Letters Per Year • $250 annually | www.dowtheoryletters.com

July 30 DJIA 10655.15; PTI 5349; A-D Ratio +2.44
Aug. 9 DJIA 10714.04; PTI 5353; A-D Ratio +1.33
Dow Yield: 1.62%; Dow Price/Earnings: 25.2
Dow 144-day MA: 10284; Dow 34-day MA: 10919
Dow Times Book Value: 6.33; PTI 89-day exp. MA: 5353
Percentage of Undervalued Blue-chips: 4%
Gold 34-day MA: 260.3

Aug. 11, 1999 **LETTER 1284**

THE PICTURE: Strike One: On July 29, my **Primary Trend Index (PTI)** broke below its 89-day moving average. In so doing, it moved into its bearish mode (page 2 chart). Veteran subscribers know that when the PTI is bearish, the market atmosphere also turns "unfriendly." On my Internet site (www.dowtheoryletters.com) on July 29, I wrote, "Everybody out of the water."

Strike Two: On August 3, the **advance-decline ratio**, which measures the trend of the **majority** of stocks on the NYSE, broke below its March 23 low of 2.11. This took the A-D ratio to its lowest point since the April 3, 1998, bull market high. The new low in the A-D ratio presents clear evidence that the great majority of stocks on the NYSE have been, and still are, trending lower. On the Nasdaq, the picture has been even more bearish. What we've been witnessing has been the "slaughter of the average stock," masked, of course, by the better action of 50 blue-chip leaders.

Strike Two-and-a-Half: On August 4, the D-J Transportation Average broke below its important support at the June low. In so doing, the Transports gave one-half of a Dow Theory bear signal. But half a bear signal is no better than none. It takes both Averages breaking below their critical support levels in order to render a bear signal.

So the trillion dollar question now boils down to a single question -- will the Dow resist violating its May low, thereby saving the bulls? Or will the Dow break through its May low thereby handing the victory to the bears?

So the single most important figure in the market is the May low for the Dow. That low is **10466.93.** Write that number down. Keep it firmly in mind. It is critical.

So as this is written, the stock market, from a Dow Theory standpoint, is in "no man's land," and it will remain there until it is clear that the Dow either has plunged below its May low -- or until it's obvious that the Dow has no intention of violating its May low.

Of course, there's nothing in Dow Theory that tells us that we must wait for an actual bear signal before selling. I've been telling subscribers to get out of stocks and into T-bills for many months. This is an ugly looking market, it's the most overvalued market in history, it's a dividend-less market, and it's a market that's now marching to a different drummer.

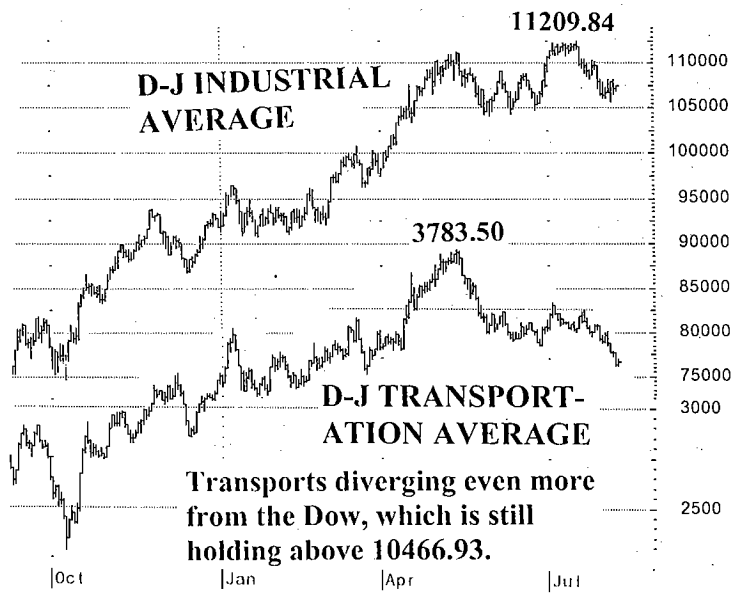
In the meantime, I liken the advance-decline ratio to the water in a bathtub. Despite the soap (the Dow) bobbing on the surface, the stopper has been pulled out and the water is running out of the bathtub. This has resulted in a huge amount of damage to the **majority** of stocks. A glance through a chart book shows stock after stock well below its highs, many down anywhere from 25% to over 50%.

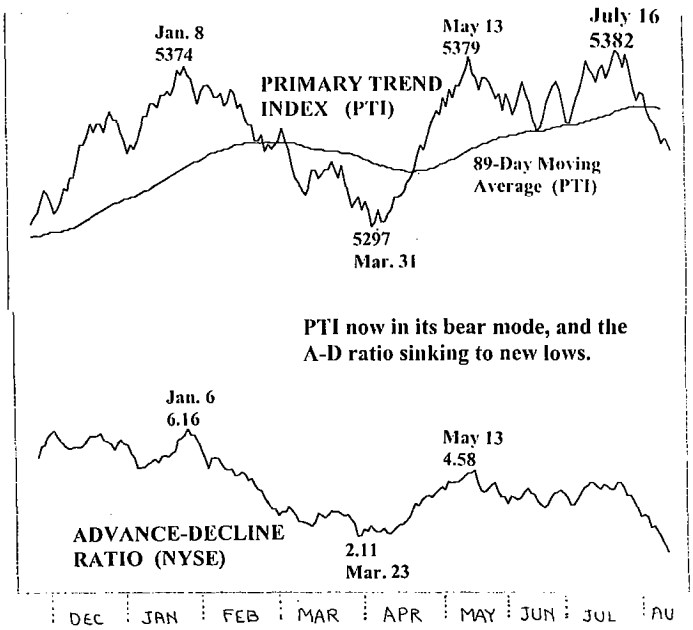
One of the most fascinating (and dangerous) things about this market is the utter lack of recognition, lack of even a hint, that we could be on the edge of a primary bear market. I don't think I've ever seen anything like it. But I guess it's understandable. After all, the public has been inculcated with the "buy the dip" philosophy for so long, they have been told about "growth as far as the eye can see" for so long, that they cannot even envision a major, crushing bear market.

As I write this the "talking heads" on CNBC continue to concern themselves with "beating the estimates," whether Alan G. will raise rates a quarter of a percent, or whether you should buy this stock or that one. But that's not where it is, that's not where they should be looking. Ah well, maybe I've been in this business too long, maybe I'm taking it all too seriously. The old philosopher said, "On a surface level, life is a comedy, on a deep level, life is a tragedy." Which one is the right one today? Darned if I know.

Primary Trend: As this is written, I obviously can't know whether we're in a bear market or not -- and I won't until the Dow tells me the story -- one way or the other. But this is critical -- if, and I emphasize IF, we are in a bear market, than it's certain that the Dow May low will be violated. So relax, this market is very tricky, very volatile, very deceptive. And it will do whatever it has to, to keep traders and investors hoping that "everything is all right." For my subscribers, I say, "Stay cool, sit tight, what will be will be. **The die is already cast.** If the bear has indeed taken over, the Dow May low will break. If the bull is still in command, the Dow will stubbornly refuse to violate **10466.93**."

BACKGROUND: Based on over four decades of studying the markets, I want to discuss a few of the studies that I've found most important. But first I want to talk about **values,** which, of course, are a fundamental, not a technical, consideration. Nevertheless, values constitute the most basic of all Dow Theory considerations. At the turn of the century, Charles Dow wrote, *"Values, when applied to stocks, are determined in the end by*





the return to the investor, and nothing is more certain than that the investor establishes the price of stocks." Dow noted that stocks move in major swings or waves -- the swings taking stocks from under-valuation to over-valuation and then back to under-valuation again. Concentrating on value considerations, Dow wrote, *"To know values is to know the meaning of the market."*

The turn-of-the-century investors and traders believed that stocks fluctuated erratically based on each individual's stock worth. Dow disagreed. Dow developed his averages to demonstrate that stocks don't just fluctuate aimlessly, but they move in **definite trends.** The long trend (usually taking years) from under-valuation to over-valuation was known as a bull market. The corrective trend, the extended decline which corrected the bull market, was known in Dow's day as a panic. Today we call it a bear market.

The Dow Theory begins with an appraisal of values. Classically, stocks were considered "great values" when the Dow declined to a level where it produced a yield of 6% or more. Dow considered stocks over-valued when the Dow advanced to the point where yields dropped to 3% or less. Of course, the current huge bull market has far surpassed any historical measurement of over-valuation. Since action breeds reaction, it is just as possible that the next bear market will surpass most historical measurements of under-valuation.

At any rate, the value studies are basically useful in telling us where we are in the great bull/bear cycles. It's obvious, judging from today's values, that we are in the super-high area of a great, really unprecedented bull market. As for pin-point timing, the value studies are useless.

From the technical standpoint, I place the action of the averages in a position of primary importance. I'm not going to go into the intricacies of reading the averages at this time. But suffice it to say that the averages, when read correctly, may tell us where we are in the bull/bear cycle. Furthermore, a proper reading of the averages can be extremely useful in telling us when a bull market is near starting and when a bull market is near ending or at least when a bull market is in its terminal stages.

Aside from the averages, I've found that the advance-decline ratio is extremely useful in determining the overall market trend. The advance-decline ratio traces the direction of the **majority** of stocks on any given exchange (I personally prefer limiting the study to the stocks on the NYSE). The A-D ratio is so important because it is so basic. After all, what could be more important than the trend of the majority of stocks on the leading exchange?

Most of the time, the majority of stocks will follow the lead of the blue-chip D-J Industrial Average. When they don't, something is amiss. That "amiss," or divergence, may go on for weeks, months, even over a few years, but ultimately, the market will do whatever it has to -- to close the technical vacuum and get the Dow in line with the A-D ratio, or else (and this is very rare) get the A-D ratio in line with the Dow.

August 3 proved to be a very significant day for the A-D ratio. On August 3, the A-D ratio broke below its March 23 low of 2.11 (see page 2 chart). The violation of the March 23 low took the A-D ratio to a **new low** on its long journey down from its April 3, 1998 peak.

The new low in the A-D ratio has not, so far, been matched by weakness in the Dow, and this sets up a price/breadth non-confirmation. In such instances, the Dow has often rallied for a bit, but the continuing weakness in the majority of stocks as measured by the A-D ratio will put a limit on how far the Dow can rally.

The divergence between the major stock averages and the advance-decline line has been going on ever since April 3, 1998, a period of 16 months. **Ultimately, this divergence must be resolved.** When it is finally resolved, it will **most probably be resolved to the downside.** I base this on the thesis that almost all extended divergences have, in the past, been resolved to the downside. I further base it on the thesis that stocks by any historical measurement are over-valued -- and that a correction of that over-valuation will require a dramatic decline in stock prices.

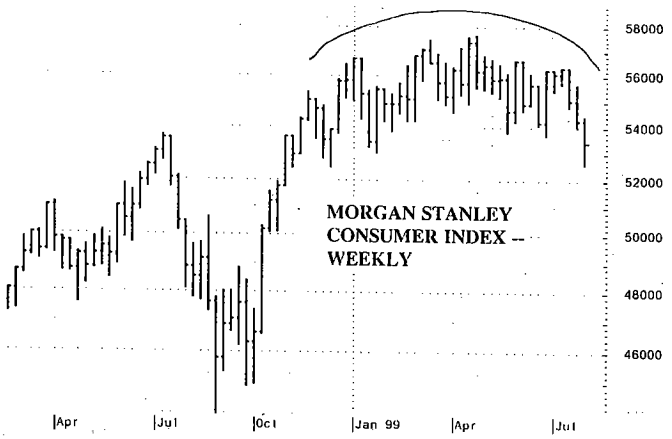
INVESTMENT POSITION: As this is written, my PTI is in its bearish mode, but there's been no Dow Theory bear signal yet. What to do? Look, I tell myself, I'm not dealing with buying a new bicycle or going for a few dinners at the Four Seasons, I'm dealing with my subscribers' hard-earned money. Therefore, in all good conscience, I should and will play it conservatively.

So what to do? I'm taking the bull out of the box and putting a question market in instead. I don't like the market action, I don't like the PTI action or the A-D action -- but the Dow has still **not** rendered a bear signal by breaking its May lows.

In view of the extreme over-valuation in stocks, in view of the PTI action, in view of the advance-decline action, I'm telling my subscribers to **play it safe.** Safe is having most of your liquid assets in T-bills or short T-notes.

Subscribers ask me what I think could happen if the Dow breaks the May low and a bear market is in force. Here's my suspicion, and I haven't heard anyone else talking about this. I've shown this chart before, but here it is updated. It's the Morgan Stanley Consumer Index. This is a weekly chart -- it shows the Index in an ominous "rounding top" and decisive break-down. The chart is telling me that we could be on the edge of a "consumer buying strike." What, consumers pulling back on their buying? That's right. If the stock market breaks, with half the families in the US in the stock market, I believe a bear market would scare the hell out of consumers -- and they would react by cutting back sharply on their buying. And remember, consumer buying constitutes two-thirds of the Gross Domestic Product of the US. Mull it

over -- that's what I think could happen. And here's something else -- if a bear market enters the picture and stocks hit the skids, the Fed can bring rates down and give money away, it won't spur consumer buying. Bringing rates down to almost zero and giving money away didn't spur buying in Japan and it won't here. Today, the **power is in the stock market,** not in Mr. Greenspan's Fed. That's the shocker that could lie ahead.



NOTES & QUOTES: Be my guest: I exchange advisory reports with a number of other analysts. All of the exchange advisors are welcome to get on my daily web site. Just hit www.dowtheoryletters.com. (To sign up for your personal username and password, click on the phrase "websignup" on the website and fill out the form. Those of you who have already set up your username and password, just click on Members' Area, and enter your username and password in the box that comes up. That's it. It's easy.) And obviously, I would like all my full-term subscribers to do the same (trials are not eligible). Events are moving so rapidly today and we are at such an important juncture that I repeatedly make this request. **Get on my daily net site. Do it. It will cost you nothing extra. It's freeeee.**

* *

I was reading the July 22 research report of Morgan Stanley Dean Witter. The piece by the "grand old man" of Morgan, Barton Biggs, particularly interested me. Biggs writes, "Most of us invested bears are convinced that the valuation of the US equity market is absurd, that there are no new eras. We also cherish the conceit that we have enough foresight left that we will be able to extricate ourselves before the storm, the deluge that is bound to come. Vindication then will be sweet indeed as all the smart kids are carried out." **Russell Comment**: As Biggs is waiting for vindication, **all the while the breadth of the market continues to deteriorate.** So as far as exiting the market "before the storm," the irony is that the majority of stocks are already sinking, and the real storm is not even here yet.

* *

I mentioned this on my net site, but I want to go over it again. Historians looking back on the '90s might call this the "decade of polarities." What we are now seeing is splits or extremes in many areas. I'll list a few. **(1)** The split between about 50 big-cap stocks and the rest of the market. **(2)** The split between the Dow and the advance-decline ratio. **(3)** The split between the world's developed nations and the under-developed or "poor" nations. **(4)** The split between the computer-literate and the computer-ignorant population. **(5)** The split between the rich and the poor in America (which seems to be growing ever-wider). **(6)** The split between the popularity of the big-name universities and the smaller or lesser known universities. **(7)** The split between the big-cap stocks vs. the small-cap stocks. **(8)** The division between the rich or highest-earners vs. the average Americans. **(9)** The higher pay of the college graduates vs. the minimum wages of the high school graduates and high school drop-outs.

How this for polarity? The output of the 51 million people in the 41 poorest nations is less than the net worth of three Americans -- MSFT founders Bill Gates and Paul Allen, plus investor Warren Buffett.

One more polarity. A decreasing number of mutual funds are taking in most of the cash. According to the *LA Times,* "Nearly half of all funds and fund groups are bleeding assets. Net new investments into stock funds are down despite broad gains this year in global stock markets . . . And the two big reasons may be linked to the Internet. Thanks to the continuing allure of Internet stocks and competition from cut-rate online brokers, many Americans are investing directly in individual stocks instead of mutual funds. And thanks also, in part, to the Internet, and the speed and efficiency with which it dispenses information, the new money that is still flowing into funds is being concentrated in a small groups of funds and fund families with worrisome implications for the fund industry as a whole." Said a John Hancock Funds executive, "I've been selling funds since 1984, and I've never seen sales so concentrated. It's frustrating . . . 66 cents of every new dollar that investors plowed into stock and bond funds in the first six months of this year went into just three fund companies -- Fidelity, Vanguard and Janus." **Russell Comment:** Through the net, investors can now gain instant fund comparisons. But I'm more worried about what happens in the next bear market when trillions of dollars worth of funds start unloading their assets. It will be a new experience for this generation.

* *

Barron's (August 2) has a great expose of the Fed, which is fat with 23,000 employees and expensive luxury real estate in 12 different Reserve centers. One problem is that the Fed is accountable to no one and has never been audited. Its annual cost runs to well over $2 billion. **Russell Comment:** I've always held that the institution of the Fed is harmful, not needed, and that it should be abolished. Since 1913, when the Fed came into existence, the value of the dollar has withered away until the dollar has now lost well over 90% of its 1913 value. Furthermore, with all its "research," I don't think the Fed has a clue as to what's coming up in the economy. For instance, over the last six months the Fed has changed its perception repeatedly. First growth was good, then growth was bad, then growth became good again. Lower rates three times in a row, then a boost in rates and maybe another boost this month. The stock market is too high, the market is priced right, the market can do what it wants, the Fed gives up on the market and won't mention it again.

* *

Oil: With OPEC members now actually cutting back on production, some analysts are now predicting that oil will climb to possibly 40 bucks or more in the next six months. That could be one reason for utility and transport weakness, in other words, investors believe in the higher-oil forecasts and the utilities are backing off accordingly. What could change the outlook for higher oil? A bear market would drive it down.

* *

People often ask me why I read 12 newspapers a day and around 20 magazines a week. I tell them that often the real story of what's happening is so hidden that you have to read a carload of output to even begin to ferret out the real story -- and even then you may not be able to piece together the puzzle.

The first time I saw the story of serious deflation in China came out in the July 25 *NY Times*. Consumer prices have fallen in China for 21 consecutive months. Writes the *Times,* "The most intractable problem is that there are simply too many factories churning out everything from refrigerators to air conditioners to cars. Camera factories, for example, are operating at less than 20% of capacity, according to government statistics. Even companies that produce China's once-ubiquitous mode of transportation, the bicycle, are running no more than half their capacity. The oversupply of TV sets in China has set off a price war, and eight manufacturers of TV tubes recently agreed to suspend operations for two months to reduce their stockpiles .

. . The glut of capacity is a result of foreign money that poured into China in the mid-1990s, leading the economy to grow at a furious pace. Many of those dollars flowed into hapless ventures or speculative schemes that are now losing money." **Russell Comment:** On July 25, the head of the World Bank added to the gathering pressure on the stability of China's currency by suggesting that a devaluation could relieve the problem of deflation.

* *

With gambling literally sweeping the US (most cities in the US are now within a two hour car ride of a casino), it is informative to review an article from the July 25 *NY Times:* "High rollers prefer playing baccarat . . . Month-to-month over the last three years, the combined hold percentage (the 'hold' is how much the casinos hold back or take in) for baccarat for all the casinos on the Las Vegas strip has varied from 4.7% to 26.9%. By contrast, the combined monthly hold percentage on all other table games varied only between 10.3% and 18.5%. Casinos have a built-in advantage in the games they offer, with a few games influenced slightly by players' skill. On a standard Las Vegas roulette wheel, for example, the house's advantage is 5.25%, meaning that the casino will come out ahead by an average of $5.26 for every dollar bet . . . Casinos cannot measure directly how much is bet on table games, so they calculate the hold percentages based on how many chips are sold. A roulette player who bets $100 will have, on average, $94.75 to show for it, given the 5.26% house advantage. But the player is likely to bet all or part of that $94.75 again, and to lose some more. If he bets long enough, his entire $100 will be exhausted, making the casino's hold percentage for that player 100%, even though the house did not win on every spin of the wheel (in actual play, the hold percentage for roulette runs a bit over 20%, according the Nevada Gaming Control Board). The house's statistical edge in baccarat is the smallest of any game, slightly above 1% . . . yet the baccarat hold percentage on the strip averages 16%, indicating that gamblers play through their chips 10 times or more." **Russell Comment:** The operative facts are these: everything in Las Vegas is aimed at **keeping you playing. The longer you play, the more the house's probability percentage works against you.** Play long enough and it's literally guaranteed that the house will take your money.

* *

An e-mail from an observant subscriber states that he is becoming increasingly "bothered and cynical" by numerous incidents of obvious manipulation. He mentions Amazon.com's attempt to thwart bad news (gross margins down by 120%) by another stock split. He also mentions that *Investor's Business Daily* has stopped publishing 52-week lows for stocks. And recently *IBD* replaced two mutual funds in their Mutual Fund Index (of course they replaced the poor performers) with one fund that is up 54% for the year and another that is up 20%. **Russell Comment:** Wall Street obviously has a huge stake in the continuation of this bull market, whether it's *Investor's Business Daily*, CNBC, the *Wall Street Journal* or any newspaper with a listed stock. Thus, consciously or unconsciously, the pressure is to play up the good news, stay optimistic, "keep it all going." Remember, good news and bullishness begets advertising, circulation, viewership and buying.

* *

Just look what the bull market has wrought. Round-the-clock market news via TV and numerous Internet sites, many new industries, over a trillion dollars in corporate mergers, a building boom, a consumer buying spree, low unemployment and a scarcity of labor, and this is just the short list. In the face of all this, it's obvious, and to be expected, that we would be bombarded with an endless parade of manipulations all aimed at "bulling" the market. It's human nature, accept it.

* *

Dr. Thomas T. Perls of the Harvard Medical School studied 150 people 100 years of age or older -- in an attempt to uncover their survival secrets. These oldsters, he found, were healthy throughout most of their lives and currently completely aware of everything around them. "Every person we studied tested low for levels of neuroticism -- unhealthy feelings of extreme anger, fear, anxiety, or sadness. These feelings can disturb heart-beats, reduce immune functioning and even accelerate the aging process. The people in our group all had the ability to easily shed emotional stress, tended to be calm and collected during crises and easily adapted to changes in their environment . . . One way to respond is by learning to let go of what can't be changed. Stress-reduction techniques, such as daily meditation and deep-breathing exercises can be helpful. Learning to adapt to changing situations is another common characteristics among our winning 100-year olds. But adaptability entails more than responding to outside forces. Equally important is the ability to take charge of the life situations."

Russell Comment: One thing I personally have learned is to AVOID situations that I know I will find stressful. For examples: I avoid taking stressful positions in the stock market. I really don't like the stress of travelling (I find traveling very stressful), and I prefer to hang out in La Jolla. So unless absolutely necessary, I don't travel. I try to (and usually do) avoid unpleasant situations. For instance, if somebody I find boring or annoying invites me to dinner, I don't go. If somebody wants me to go to dinner at 9PM, I say, "No," because I hate eating late, and I tell them so (with apologies, of course). The point is that you **can avoid** situations which you know will be annoying, distasteful or stressful. It takes awareness and the willingness to say, "No," but you can do it. I do it, and I don't make any excuses for it.

* *

Nah, there's no inflation. How do we know? The government tells us so. But what's this? Just a squib from *Investor's Business Daily*, but pay it no mind.

Existing-Homes Sales Soar 10.6%; Prices Set Record On Tight Supply

Interest rate jitters, consumer confidence combine to push sales to a new all-time high

Hot Houses

Existing-Home Sales

Monthly Change

Seasonally adjusted annual rate, in millions

Seasonally adjusted

* *

No question about it, the Internet is changing the way we do almost everything from how we run our businesses to how we live our lives. But I'm increasingly convinced that the net is basically **hostile to profits.** The following is from a front-page article in the July 28 *WSJ*: "Plenty of fast-growing companies are committing similar forms of pricing suicide in cyberspace -- and then declaring they cleared their path to success. Want to receive a fax? Open an internet account? Collect your voice mail, make a long-distance call, listen to music or read commentary by prominent writers? No-cost versions of all these services are popping up on the Internet, to the consternation of the established rivals that believe in charging for their services." Says David Cowan, a partner at Bessemer Venture Capital, "Time and time again, do-it-for-free companies are coming in and spoiling an industry for everyone else, but it's a fact on the Internet. People expect a lot of things for free. And if you don't give it away, some other start-up will . . . In the current free-for-all, it's far from certain that many competitors will succeed. Of the $1.9 billion spent on Internet advertising last year, 10 companies garnered nearly 70%, and their share has been steadily increasing. That leaves thousands of small businesses to fight for the crumbs, amid signs that more Web surfers are tuning out ads or installing ad-blocking software. Furthermore, while Internet commerce is growing fast, it isn't clear whether users of a free Web service will stay there to do their shopping . . . Eventually, Internet analysts say, the no-charge trend could shake up businesses as disparate as stock-trading and photo-finishing. Some online brokerage firms already charge commissions as low as $8 a trade, and there is speculation that brokers eager to get margin-account interest may some day slash their commissions on certain simple trades to zero. Meanwhile,

the ability to e-mail photos and process them with image-manipulating software is making it easier to match photo-shop services on their computers, at little or no cost." **Russell Comment:** As I've been saying all along, the Internet is a marvelous innovation, it's revolutionary -- but it is **basically hostile to profits.** And it's going to send many old-line industries to the graveyard.

How much will this hurt the NYSE and the Nasdaq? Instinet Corp., a division of Reuters, is taking a stake in Archipelago Holdings, LLC, and plans to be a full-fledged stock exchange. Both of these companies operate what is known as electronic stock exchanges that automatically execute customer's orders and, as the *WSJ* puts it, "pose a growing challenge to the Big Board and the Nasdaq." How much will the new electronic exchange hurt the big established exchanges? The Russell opinion, "They'll hurt them a lot."

* *

Net -- Nyet: Here's irony, a few months ago IBM spurted because "Hey, it's really a net stock." Now that the net stocks have been killed, it's "Hey, get rid of IBM, it's a net stock."

* *

Competition for MSFT: IBM and Hewlett Packard are both using the Linux operating system on certain models of data-dishing servers. Said Tom Figgatt, strategy planning executive for IBM, "This isn't a flash in the pan. For us, Linux is a long-term plan that's continuously building." Linux is the **free** operating system that is increasingly competing with Microsoft's own operating systems. These companies don't want to see MSFT take over the world of servers the way MSFT has taken over personal computers.

* *

What's the hottest video in history? According to the July 28 *Variety,* it's "Saving Private Ryan," which, since its release on tape, has raked in $44 million -- $9.6 million in its first week. The pic earned $216 million at the domestic box office alone. **Russell Comment:** If you haven't seen this movie, you've missed out on a great one. See it.

* *

Clinton and the pols have great plans for running surpluses and with those surpluses paying off our $5.6 trillion national debt. Mmm, a yummie idea. Only problem is that -- well, read the clip below from the August 5 *New York Times.*

Congress Close to Spending Most of Next Year's Budget Surplus

By TIM WEINER

WASHINGTON, Aug. 4 — Congress tonight moved closer to spending most of the projected surplus in next year's budget with two "emergency" measures to aid farmers and conduct the 2000 census.

The Senate, before passing a $61

ment of Justice, including $192 million from the Federal Bureau of Investigation.

The bill also bars the F.B.I. from spending money on a program called Fidnet, a new initiative to create a computer monitoring system with the stated intent of combating "cyberterrorism."

* *

In 1998 the **interest on the national debt** was $243 billion or almost $4.5 billion a week. Just compounding the interest alone, at around 6%, will add $14 billion additional to the debt. Next year, with interest and compounding of the interest, we will add $259 billion to the national debt. We have reached the point where the compounding process will send the debt off into space unless there is a massive effort to reduce the total amount of the debt. To get anywhere, the net reduction should be at least $500 to $700 billion a year. I'll be amazed if Washington can do that for even one year. If they don't, the compounding process will run the debt off towards infinity.

* *

How investing has changed. Jim Grant notes (and I well remember this) that the old NYSE ads ran, "Read our wonderful free booklet, 'Dividends over the years.'" The ad told readers that the booklet "lists those 300 stocks that have paid dividends every year from 25 to 108 years." **Russell Comment:** Dividends? What are those? Who needs dividends when stocks keep forever climbing? Then I just perused Standard & Poor's latest publication of "The Outlook." S&P publishes two lists of small/mid cap stocks for long-term capital appreciation, one list "conservative," and the other list "aggressive." Of the 20 stocks listed, 14 have zero dividends, four have yield below 1%, one has a yield of 0.9% and the other has a yield of 1.6%. And that's what they call investing as we close in on the millennium.

I CAN'T AFFORD A DOCTOR...
YOU NEED A GOVERNMENT PROGRAM!
Rx MEDICARE MEDICAID
I CAN'T AFFORD THE RISING COSTS...
YOU NEED MANAGED CARE!
Rx HMOs
I CAN'T GET APPROVAL FOR TREATMENT...
YOU NEED A LAWYER!
Rx PATIENTS BILL OF RIGHTS
I CAN'T AFFORD A LAWYER...
YOU NEED A GOVERNMENT PROGRAM...

CRITICAL CHARTS: Following are a group of charts that I feel are extremely important at this time. Note that these are all daily charts, all dealing with the March through August period, and all are up to date through Friday, August 6. Each chart includes a 200-day exponential moving average.

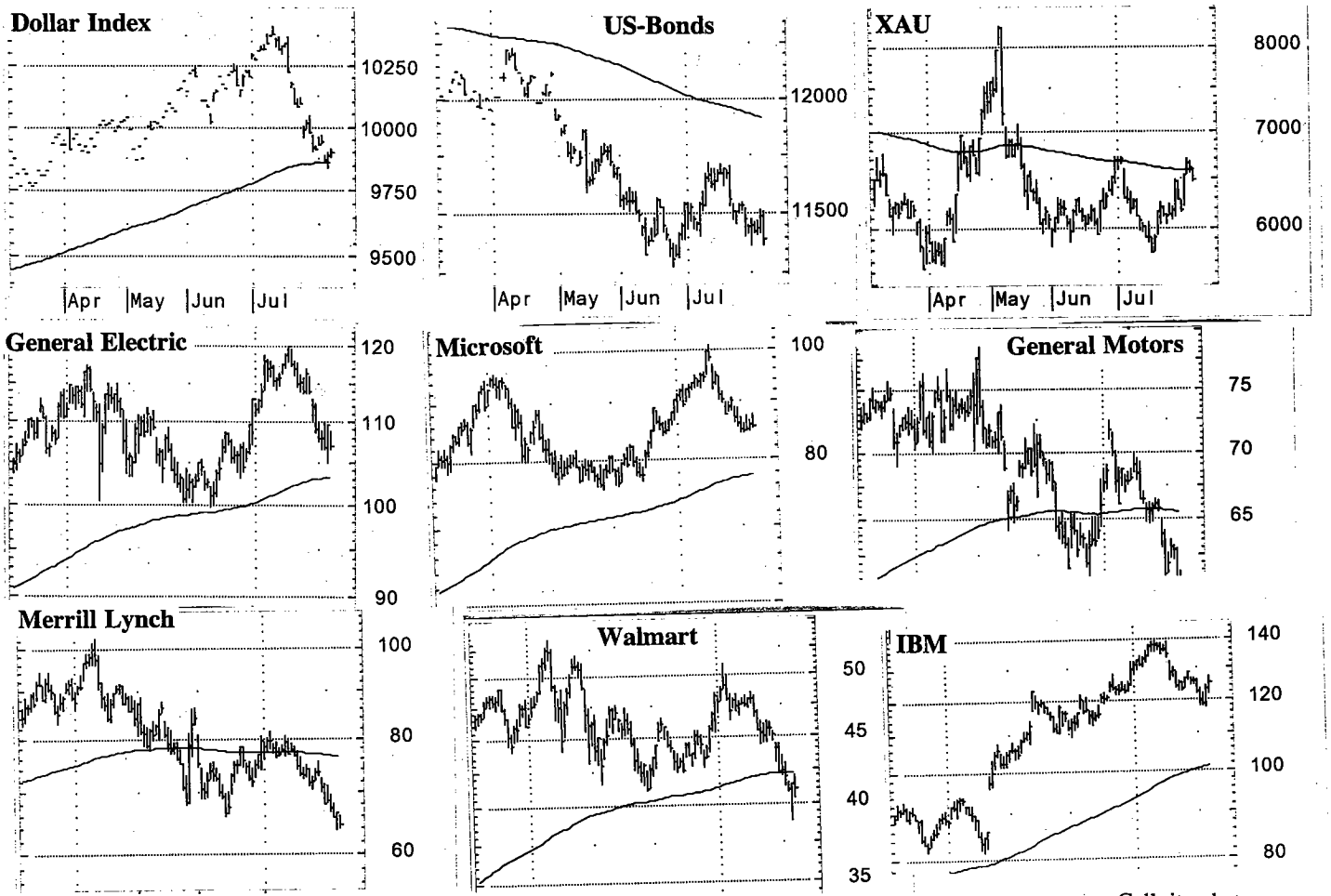
The first chart shows the Dollar Index, and here we see the "collapse" from the 104 high of July 12 to the August 5 low of 98.48. Note that the Dollar Index has come right down to "support" at its 200-day moving average. Is that it, or is the dollar heading lower? We'll know this week, but remember, higher rates make the dollar more attractive.

The second chart shows the September 30-year Treasury contract. The low on its long slide was hit June 24 at just over 113. Last week the bond came down to test that low again. Here we see a head-and-shoulders pattern, but for a H&S pattern to be bearish, it has to come off some kind of top. This one didn't, so I'm not convinced that the bonds are going to break below their June 24 low. If a slowdown in the economy lies ahead, the bonds will sense it and tend to hold in this area.

The next chart is XAU, the Phila. Gold/Silver Average. On July 30 and again last week, XAU rallied back to test its 200-day MA. There's real resistance here. A convincing breakout above 67.50 would be very bullish for XAU and the whole universe of gold and silver shares. If XAU can push above 67.50, the next important upside target would be to better 82.62, which was the peak recorded on May 6 (obviously, it will require important buying of gold and gold/silver shares to drive XAU above that 82.62 high).

Ah, mighty GE, a stock heavily represented in almost all mutual funds and pension plans. GE is one of America's great companies -- and a bellwether stock, in my opinion. On June 10, GE came down to test its MA, and the test was successful. A rally then took GE to a high of 120 on July 19. Since then its been downhill, with a low of 106 recorded on August 5. I place important support at 103 and critical support at 100. Below 100 and GE would cast a shadow on the whole stock market.

Microsoft is the other giant that everyone watches closely. MSFT hit a high of 100¾ on July 19 and promptly reversed. The stock has carved out a subtle head-and-shoulders top with important support at 84. So far, support's held at that level. But if 84 can't hold, the next support is at 75. If MSFT breaks 75,



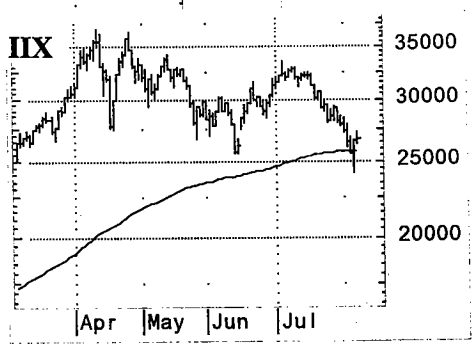
hold your hat, the market is in super-trouble. So far, MSFT has been holding well above its MA.

GM chalks up more in sales than any corporation in the world. GM may sell a load of cars, but its stock is in trouble (as are Ford and Daimler). GM has broken sharply below its MA, and I guess the next support is at the December low of 54. The auto stocks seems to be discounting sliding sales for the period ahead -- or a squeeze on profits. Is what's good for GM still what's good for the nation?

Merrill Lynch is another of my bellwethers. And it's a bellwether than doesn't look too healthy at this point. Merrill is in a huge head-and-shoulders top and what you see on this chart is just the head and the right shoulder. Critical support for Merrill comes in at 61. If MER breaks below 61, it has no real support down to the October low of 36. As you can see, MER is now well below its MA, not a good sign.

Next we have that retailing monster, Wal-Mart, an outfit that apparently wants to gobble up the entire retail world from men's pants to hardware to peanut butter -- not only in the US but overseas. Last week, darned if WMT didn't break below its MA. Frankly, I don't know what gives here, but the next real support comes in at about 34, which is where the tops of July and August were recorded. WMT's decline suggest strongly to me that US consumers are close to ending their buying frenzy. (Does that check with topping action in the auto stocks?)

Next, I show the chart of IBM, known affectionately as "Big Blue." Here again we see a powerful little head-and-shoulders pattern with support at 117. If IBM can't hold above 117, really important support comes in at 110. If 110 can't hold, well, at that point you just don't want to hold IBM (assuming you still do). IBM is now considered by many a variety of Internet stock.



Call it whatever you want, but just watch that first support at 117. IBM is still happily well above its MA.

Finally, we have IIX, the Internet Index. Although a long list of net stocks have collapsed with many having lost 50 to 75% of their value, IIX is sitting right on its MA. On August 5, IIX dropped to an intra-day low of 241.24. What we see on the chart are declining tops in IIX, but if this Index closes below 241, it would be saying that even the very best of the net stocks are finally heading south (many of the net providers such as INTC and CSCO are still "up there" and continue to look good).

LATE NOTES: I've changed the Dow lower limit to **10466.93** (recorded on May 27), the lowest closing of the three Dow downward stabs which occurred during May and June. If the Dow breaks below this figure, it's a bear market . . . Remember the adages, "He who laughs last, laughs best," "Last, but not least," or, "The last shall be first." At this point, the bulls (who rush in each morning to "buy the dip") appear to "own" the first few hours of trading, while the bears appear to "own" the last hour. Remember, the **closing prices are the important prices.** You have to wonder how long this can go on? Well, it can continue until the bulls get tired of absorbing the losses on the stocks they gobble up at the opening . . . . Interesting that investors and traders continue to remain **stubbornly bullish,** regardless of the extensive damage that has been done to this market so far. That won't change in a hurry, it's become a habit.

NEXT MAILING: Aug. 25, 1999